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Standing Committee on, 1953/54

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THE SENATE OF CANADA

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Proceedings of the

STANDING COMMITTEE ON

CANADIAN TRADE RELATIONS

in respect to the inquiry into what, in their opinion, might be
the most practical steps to further implement Article 2
of the North Atlantic Treaty.

No. 3

WEDNESDAY, MAY 12, 1954

The Honourable A. N. McLEAN, Chairman

WITNESSES:

The Canadian Exporters' Association:

Mr. S. A. MacKay-Smith, President.

Mr. G. H. MacDougall, Vice President.

Mr. R. B. Spiro, Director.

Mr. O. B. Brown, Director.

Mr. J. H. Ferrie, Director.

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1954.



CANADIAN TRADE RELATIONS

The Honourable A. N. McLean, Chairman

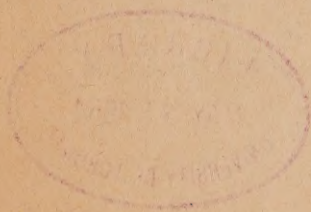
The Honourable Senators

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| Baird | Duffus | MacKinnon |
| Bishop | Euler | McDonald |
| Blais | Fraser | McKeen |
| Buchanan | Gouin | McLean |
| Burchill | *Haig | Nicol |
| Campbell | Hawkins | Paterson |
| Crerar | Howard | Petten |
| Daigle | Kinley | Pirie |
| Davies | Lambert | Turgeon |
| Dessureault | *Macdonald | Vaillancourt—(28) |

* *ex officio* member.

35 Members.

(Quorum 7)



ORDER OF REFERENCE

Extract from the Minutes of Proceedings of the Senate, Tuesday, February 23, 1954:—

“That the Standing Committee on Canadian Trade Relations be empowered to enquire into and report on—

1. What, in their opinion, might be the most practical steps to further implement Article 2 of the North Atlantic Treaty whereby the signatories to that document agreed that—“They will seek to eliminate conflict in their international economic policies and will encourage economic collaboration between any or all of them”.

2. That notwithstanding the generality of the foregoing, the Committee be instructed and empowered to consider and report upon how, in their opinion,

(a) any project for developing economic collaboration, specifically between the countries who are signatories to the North Atlantic Treaty, can be co-ordinated with the trade policies of other countries of the free world;

(b) any project for developing economic collaboration between the countries which are signatories of the North Atlantic Treaty, might have the same degree of permanence that is contemplated in the twenty year Military obligation under Article 5 of the Treaty whereby “The Parties agree that an armed attack against one or more of them in Europe or North America shall be considered an attack against them all”.

3. That the Committee be empowered to extend an invitation to those wishing to be heard, including representatives of agriculture, industry, labour, trade, finance and consumers, to present their views, and that the Committee also be empowered to hear representations from business interests or individuals from any of the NATO countries who might wish to be heard.

4. That the Committee be empowered to send for persons, papers, and records, and to secure such services as may be necessary for the purpose of the enquiry.”

L. C. MOYER,
Clerk of the Senate.

MINUTES OF PROCEEDINGS

WEDNESDAY, May 12, 1954.

Pursuant to adjournment and notice the Standing Committee on Canadian Trade Relations met this day at 11.00 a.m.

Present: The Honourable Senators McLean, Chairman, Burchill, Campbell, Daigle, Davies, Euler, Gouin, Kinley, MacKinnon, McDonald, Nicol, Pirie and Turgeon.—13.

In attendance: the official reporters of the Senate.

Consideration of the Order of Reference of February 23, 1954, was resumed.

The following representatives of the Canadian Exporters' Association were heard:—

Mr. S. A. MacKay-Smith, President.

Mr. G. H. MacDougall, Vice-President.

Mr. R. B. Spiro, Director.

Mr. O. B. Brown, Director.

Mr. J. H. Ferrie, Director.

Further consideration of the Order of Reference was postponed.

At 12.30 p.m. the Committee adjourned to the call of the Chairman.

Attest.

John A. Hinds,
Assistant Chief Clerk of Committees.

MINUTES OF EVIDENCE

THE SENATE

OTTAWA, Wednesday, May 12, 1954.

The Standing Committee on Canadian Trade Relations, which was empowered to inquire into and report upon the development of trade between countries signatory to the North Atlantic Treaty, and with other countries of the free world, met this day at 11 a.m.

Hon. Mr. McLEAN in the Chair.

The CHAIRMAN: Honourable senators, we will call the meeting to order. I do not think it necessary to read the order of reference under which this committee holds its meetings. We are all familiar with it and I am sure the gentlemen who are appearing before us today would not be here if they had not read it.

We are fortunate in having with us this morning representatives of the Canadian Exporters' Association, an association well known throughout Canada for the excellent work it has done in promoting the sale of Canadian products in many parts of the world. It has put forward constant efforts to eliminate trade barriers, not only between NATO countries, but between other countries of the free world. The members of the delegation before us are, Mr. S. A. MacKay-Smith, President of the Canadian Exporters' Association; G. H. MacDougall, Vice-President of CEA, Export Sales Manager, Shawinigan Chemicals Ltd., Montreal; R. B. Spiro, Director of CEA, Export Manager, The Coleman Lamp & Stove Co. Ltd., Toronto; O. B. Brown, Director of CEA, Export Manager, Beatty Bros. Limited, Fergus, Ontario; and J. H. Ferrie, Director of CEA, Vice-President, Canadian Bronze Powder Works Ltd., Montreal.

I understand that the President of the Association, Mr. MacKay-Smith, will present the brief to us; and after he is finished, there will be a question period. I think the better plan is to allow each senator an opportunity to ask a series of questions to clarify any points he has in mind, and in that way go around each member of the committee.

I shall now call on Mr. MacKay-Smith to present his brief.

MR. S. A. MACKAY-SMITH, President of the Canadian Exporters' Association: Honourable senators,

The Canadian Exporters' Association is vitally concerned with the development of Canada's international trade. The association was formed in 1943 by a group of companies interested in selling abroad who saw the necessity of an Association whose sole aim and purpose would be the promotion of export trade, and today has a membership of over 350 firms engaged in exporting.

The Association is regarded as the exporters' clearing house; the entire exporting community shares in the results of the Association's program and individual members benefit directly from the many Canadian Exporters' Association services as well as from participation in activities and exchange of views with other members. As a matter of national interest many others also contribute to the work of the Association in support of Canada's Foreign Trade Policies.

The Association is a non-profit, non-political organization and is supported by members from all Provinces. The Board of Directors and Committees are made up of Association members.

On matters of international trade, the C.E.A. works in close harmony with the Department of Trade and Commerce in Ottawa, and with the Department's far-flung Trade Commissioner Service. It also has close working relations with other Federal Government Departments whose responsibility is to develop and maintain Canada's foreign International Trade.

It is recognized by the Association that an important part of the foundation for Canadian export business is a sound domestic manufacturing industry. This industry is entitled to prompt and effective enforcement of Canadian Laws on Customs and Dumping Duties. It is, furthermore, the view of the Association that the Canadian Government, while living up to its obligations under international trade treaties, should actively protest infringements of such treaties by other countries, where such infringements create obstacles for Canadian exports.

The Canadian Exporters' Association, therefore, finds itself in entire agreement with some of the recommendations already submitted to the Senate Committee by other bodies emphasizing the importance of measures proposed to adjust international tariff barriers, to ease monetary restrictions, to hasten the advance towards the ultimate convertibility of currency, and to eliminate as far as possible tiresome customs regulations which create an intangible but, nevertheless, formidable obstacle to freer international trade.

Many of the recommendations that have already been proposed are good and, if adopted, can advance very materially the prosperity not only of Canada, but of all those countries participating in international trade.

However, the Canadian Exporters' Association has felt it important in preparing this brief to concentrate its recommendations on certain specific points to which immediate attention can and should be given and which, in the opinion of the Association, can help to achieve two very valuable results:

(1) Measures recommended to improve International Trade

The adoption of certain measures recommended to improve international trade would give Canada the opportunity to play a leading part in the freeing of international trade from its present restraints and restrictions.

Moreover, the example of Canada's leadership would react favourably on other important trading countries and would thereby give a stimulus to them to adopt similar measures.

(2) Measures recommended to benefit Canada's Export Trade

The adoption of measures recommended to benefit directly Canada's export trade would focus the attention of the Canadian public on the vital importance to Canada of maintaining her export business and would give invaluable encouragement to the many Canadian firms endeavouring under very difficult conditions to maintain their present export connections and business.

Our recommendations and suggestions will therefore deal with two specific categories:

(a) Conditions and suggestions which in our opinion would have a favourable bearing on world-wide international trade as a whole and thus would affect Canada's trade relations indirectly;

(b) Conditions and suggestions which in our opinion would be directly beneficial to Canada's external trade.

(A) Measures Recommended to Improve International Trade as a Whole**1. Currency Convertibility and Import Controls**

It has been recognized and said only too often that the shortage of free exchange in the hands of many countries is the greatest single difficulty in the further development of foreign trade and it is this exchange shortage, mostly in dollars, which in the main perpetuates the import controls, quantitative restrictions and other schemes which form the real barrier against the international movement of goods.

Sterling is, without a doubt, the currency in which a very substantial portion of international transactions is cleared and, therefore, we feel that any assistance which would make it possible for the United Kingdom, the sterling area and other allied countries to reduce or abolish their import controls and soon to make sterling internationally convertible would be most helpful to all trading countries.

Most countries in the sterling area claim that any large scale increase in the importation of Canadian goods would have severe effects on their balance of payment position. While some of these claims are at times exaggerated, the fact remains that many soft currency countries are not prepared to substantially enlarge purchases from Canada.

We suggest that Canada should be prepared to grant long-term credits to countries prepared to enlarge the list of Canadian products which can be imported on open general licence. Such credits could be exercised by the countries involved if they can satisfy the Canadian government of balance of payment hardships due to liberalization of imports.

This proposition is tantamount to a dollar loan on a favourable long term basis earmarked specifically for those countries and for those purposes on which agreement can be reached. The ultimate use of dollars received would thus remain under the control of the Canadian government. Such actions by the Canadian government would be primarily for the general good in international trade but more specifically for the good of Canada.

If it should be the case that funds of this type would be more helpful in the reduction or liquidation of outstanding blocked wartime balances, this purpose then would be given precedence whereas if the greater help towards convertibility and abolition of controls is through greater dollar assistance in settlement of current trade then that purpose would, of course, be given precedence.

It is felt that some steps along these lines could be afforded by Canada and would receive the support of Canadian people.

2. Extension of the European Payments Union to Canada and Countries Outside Europe

The European Payments Union has facilitated the exchange of merchandise and the completion of financial transactions between member countries, all of them situated in Europe. Not only have their inner clearings been assisted but the benefits have extended to their trade with countries outside the Union.

Canada has not given any direct assistance to the Union nor received any direct benefits.

Study might well be given to the possibility of the scheme being enlarged to take in other countries, such as Canada, and we suggest inquiries be made to see if this can be accomplished and on what basis it could be done. It is realized that we are a hard currency country, but so is Switzerland, which is now a member. It seems to us that an extension of the EPU arrangement to include some other countries, such as Canada, could be of real benefit over a larger field just as it has been in the smaller field. This would undoubtedly involve some credits or sacrifice on our part but within reason there is justification.

3. Stabilization of Prices and Sales of International Commodities

A great many, so-called, underdeveloped countries depend economically on the price and sale of one or two basic commodities. Any great fluctuations in price or the sale of these commodities have widespread economic and political effect on the areas involved and make them fertile ground for Communist agitators who promise high prices and a steady long term market.

While we are opposed in principle to any arrangements, national or international, which would lead to market allocations, price fixations, government bulk buying, stockpiling, etc., the advocates of these international arrangements say that we have to recognize that the development of underdeveloped areas will be impossible if the prices of the commodities they produce, and upon which their economies depend, are subject to such violent fluctuations as we have experienced recently again.

We suggest that the Canadian government should make a study of our long range requirements of basic commodities such as rubber, wool, tin, tea, coffee, cocoa, sugar, rice, ground nuts, palm oil, copra, copal, etc., and based on our best long-term interest, negotiate for steady prices and guarantee a market in Canada for periods not shorter than 5 years.

We also recommend that the Canadian government should urge the United States to undertake a similar program for reasons of economic and political self-interest.

(B) Measures Recommended To Benefit Canada's Export Trade

1. Production Costs

The constantly mounting wage costs and also the spasmodic increase in raw material prices as well as those in the costs of transport and related services, have priced many Canadian products out of foreign markets and have left the field wide open to competitors producing in countries with low wage levels, longer work week, and/or large home markets, particularly in such countries as Germany, Japan, Great Britain, U.S.A., etc.

While it is almost certain that no successful campaign could be started in order to achieve a reduction in the Canadian wage level, some action could nevertheless be taken, through co-operation of governmental authorities with trading associations, in order to inform trade unions of the consequences that constant wage increases inevitably have on Canadian production costs and to call their attention to the importance of exports to the Canadian economy—an importance which seems to be entirely overlooked by our labour leaders. In this way, levelling off of wage and other cost increases could perhaps be achieved with direct benefit to the competitive ability of Canadian manufacturers in the foreign field.

2. Incentives to Canadian Exporters

To assure an improvement in Canada's export trade, particularly in manufactured goods, and to enable firms to divert more of their production to export, certain incentives should be considered by the Canadian government. As Canada's foreign trade is such a large contributor to our economic health and growth, we suggest the following measures should be studied by the government:

- (a) Profits derived from sales to foreign countries might be taxed on a lower level than domestic profits.
- (b) Tax relief might be granted to profits derived through foreign investments. To encourage new foreign capital investments, similar measures could be adopted as those now available to United States investors through "Western Hemisphere Trading Corporations" and the Point Four program guarantees.
- (c) Lowering of Canadian freight rates to seaboard for export.

Furthermore we recommend an educational campaign among supply organizations feeding materials and semi-manufactured products into some end product to be exported, to make them conscious of the vital importance of exports to the economy of our country. We should like to believe that such a campaign could suggest a careful study of costing by such supply organizations which could result in making Canada's manufactured goods more competitive abroad.

3. Imports Direct from Source

Canada's trading position has been unfavourably influenced by the fact that many commodities are being imported through brokerage houses in the United States or the United Kingdom, instead of being imported direct from the countries of supply. Some improvements in this respect have been achieved since the end of the war but further efforts should be made in this respect and the Department of Trade and Commerce and possibly trade associations, could try to propagate this idea more effectively among Canadian importers.

In addition we are conscious of the fact that our trading position is considerably weakened in trade discussions through the fact that our import statistics do not show an accurate picture of our imports when goods enter Canada purchased through sources other than the country of origin. Most foreign countries are reluctant to credit us for purchases made through the U.S. or the U.K. We suggest that the Dominion Bureau of Statistics should take early steps to remedy this situation.

4. Imports from Soft Currency rather than Hard Currency Sources

There is no doubt that many products such as citrus fruit, dried fruit, even fresh fruit, could be imported from soft currency areas such as from Spain, Cyprus, Palestine, South Africa or the British West Indies, instead of importing them from California, Florida, etc.

Canadian Trade Commissioners in close co-operation with steamship lines and other interested parties, could increase their efforts in this respect. Often such imports are just not possible because no refrigerated space on ships is available. Or again, imports are not feasible because there are no direct sailings to Canada from the potential countries of supply.

We feel, however, that much could be done and should be done to redirect a larger share of our purchases in these tropical commodities as well as others to markets where presently our exports are curtailed due to shortage of dollars.

5. Sales to Tourists free of all Customs Duties, Sales and Excise Taxes

To improve Canada's tourist trade, on which account our balance for years has been unfavourable, and to increase our sales to the United States, meanwhile broadening our purchases from soft currency sources, we recommend:

- (a) Simplified procedure should be established by Department of National Revenue for the handling of goods which enter Canada in bond to be re-exported to foreign destinations in bond.
- (b) A practical, simple procedure should be established by Department of National Revenue to enable small importers and retail merchants to obtain customs duty drawback on the sale of imported articles when these are sold to United States and other foreign tourists and shipped to their home destinations.

- (c) The establishment of new regulations by Department of National Revenue whereby Canadian goods sold to tourists and shipped to their foreign destinations can be free of sales and excise taxes. Furthermore all such sales should also be exempt from all taxes now levied by the provinces.

6. *Export Credits Insurance Corporation*

We recommend that as an incentive to Canadian exporters the coverage now offered by the Export Credits Insurance Corporation should be considerably broadened. We suggest the following specific steps:

- (a) The corporation should not be required to operate at a profit and thus should quote lower rates.
- (b) The present coverage should be broadened to cover shipments acceptance of which for any reason might be refused by the customer, as this is a normal risk in a great many export transactions.
- (c) The by-laws of the corporation should be amended to permit exporters to insure individual shipments without having to obligate themselves to insure all their export transactions.
- (d) The corporation should broaden their coverage by offering to insure foreign capital investments against risks of non-convertibility of profits of capital repatriation and underwrite the risks of expropriation or nationalization.
- (e) The government should consider broadening the terms of section 21 of the Export Credits Insurance Act to cover all types of goods, and the coverage described in this section of the act should be made more readily available to exporters.

7. *Creation of Educational Facilities for the Development of Foreign Trade Specialists*

In order to create a better understanding of foreign trade amongst Canadians through the development of specialists in this field, we recommend:

- (a) Inclusion of subjects concerning foreign trade in commercial colleges.
- (b) Foreign trade courses in Canadian universities.
- (c) Creation of scholarships for the study of foreign trade in Canadian, U.S. and continental universities.
- (d) Foreign trade seminars for those employed in foreign trade.
- (e) More emphasis on the study of foreign languages.

The Canadian Exporters' Association is in general agreement with Article 2 of the North Atlantic Treaty and hopes that the suggestions made in this brief are of such a nature that they are worthy of serious consideration.

Canada has done her utmost to live up to the principles of the North Atlantic Treaty but must further increase her importance and thereby influence in world international economic policies.

The Canadian Exporters' Association wishes to thank the Chairman of the Senate Committee and the honourable Senators for giving us the opportunity of presenting our views and we respectfully submit this brief on behalf of our members.

The CHAIRMAN: Thank you very much. Honourable Senators, the meeting is now open for you to ask Mr. MacKay-Smith or the gentlemen with him any questions to further clarify the brief or anything else that you would like to know along that line.

Hon. Mr. MACDONALD: I wonder if Mr. MacKay-Smith could give us an idea who the members of the Export Association are. I was wondering in particular what tie-up you have with the primary producers' organizations throughout Canada. We have, for instance, certain farm products and wood supplies for which we are very anxious to find markets. I was wondering what is the tie-up of your organization with such bodies?

Mr. MACKAY-SMITH: The Winnipeg Wheat Exchange is one of our members. There are no government bodies which have membership. As I have explained, we represent lumber companies in British Columbia, people who are exporting lumber. I think we are pretty broadly representative in that field.

Mr. MACDONALD: Have you any tie-up with the Federation of Agriculture?

Mr. MACKAY-SMITH: I don't think so, no.

Hon. Mr. TURGEON: You have the wheat producers with you?

Mr. MACKAY-SMITH: The Winnipeg Wheat Exchange.

Hon. Mr. TURGEON: And the dairymen?

Mr. MACKAY-SMITH: Not the dairyman as such. We have members who are processing milk and milk products.

Mr. MACDONALD: The provinces of British Columbia and Nova Scotia particularly are very anxious to improve their position with regard to the marketing of fruit; and in the Maritime Provinces we are exceedingly anxious to be able to market our potatoes to better advantage in the British West Indies. I was just thinking that it might be advantageous if you could make a tie-up with the Federation of Agriculture and, possibly, with the wood suppliers' organizations, the lumbermen—what do you call it, Senator Burchill?

Hon. Mr. BURCHILL: Maritime Lumber Bureau.

Mr. MACKAY-SMITH: Well, we have never been approached by them. We have only been approached by individual lumbermen and fruit producers. I think we are doing some work on the West Indies right now for the Maritimes. When I say, the West Indies, I mean we are trying to maintain a steamship service with proper facilities, to assure the continuance of this trade.

Hon. Mr. EULER: Mr. MacKay-Smith has made some very interesting suggestions. This is not by way of criticism, exactly, but I think it would have enabled members of the committee to discuss the matters he suggests a little more intelligently if we had had the brief in advance and could have studied these suggestions.

Mr. MACKAY-SMITH: I apologise.

Hon. Mr. EULER: As it is, the brief has come to us without any notice to us, and it is pretty difficult to make up one's mind at once on these things. Is your organization more concerned with the promotion of exports to the sterling area rather than, we will say, to the United States? In connection with exports to the United States, one of your chief difficulties in the past has been, and I think probably still is, that there are so many obstacles in the way other than tariffs before exports can reach the American buyer. Have you found any relief of late from the new government in the United States? They have, I think, tried to make a lot of arrangements whereby some of these obstacles can be overcome. For instance, at the border. It has been the practice to charge duties on certain classifications and then the classifications are changed after an importer in the United States has paid his duty and the goods have gone into production, and they go after the importer and make him pay the additional duty. That is discouraging, and he just won't buy from the Canadian because the difficulties are so great. Have you found any relief in that regard at all?

Mr. MACKAY-SMITH: Not really. Naturally we cannot protest to the government of the United States, but we have vigorously urged our Departments of Trade and Commerce, of External Affairs and of Finance to work to simplify United States customs procedure.

Hon. Mr. EULER: What success have you had in that?

Mr. MACKAY-SMITH: Well, it is being discussed in Washington now, and I believe there is a bill under consideration to simplify United States customs operations. We are not too hopeful of the result, but at least it is a step.

Hon. Mr. EULER: It is like the weather. Everyone discusses it and nobody does anything about it!

Mr. MACKAY-SMITH: We do find that, by and large, the United States government officials agree with us. Whenever we speak to them about this they agree that it is a matter for Congress and the Senate to rectify.

Hon. Mr. GOLDING: I would like to ask the witness whether the representations which are made in this brief have also been made to the Trade and Commerce Department. Have you been co-operating with them or they co-operating with you, or what is the situation?

Mr. MACKAY-SMITH: Yes. I think we have. We have a permanent committee, which we call a Government Liaison Committee, which is recognized by the Department of Trade and Commerce and the Department of Finance, and whenever we have an agenda we call a meeting, and they are very co-operative; they work with us. We produce a complaint about something or other; in turn they complain about us. There are many complaints about us, too.

Hon. Mr. GOLDING: The representations you have made here now, have you made those representations to the Trade and Commerce Department?

Mr. MACKAY-SMITH: Well, we have made a number of them, yes, not only to Trade and Commerce but to other departments as well. We find, naturally, that the Department of Finance is involved in this.

Hon. Mr. GOLDING: With what result?

Mr. MACKAY-SMITH: Well, in some cases, success; in other cases they are trying very hard to do something about it. They do their best. They turn us down on one or two things, saying they are impossible, and explaining why.

Hon. Mr. GOLDING: The thought just struck me that if you are trying to get over your program your first approach would be through the department or the officials of the department.

Mr. MACKAY-SMITH: Well, on currency convertibility and import controls, we have striven for years, ever since the end of the war, to have them removed. That is, as I said here, one of the greatest obstacles to foreign trade by a hard currency country.

Hon. Mr. BURCHILL: I think there are many excellent suggestions in this brief—suggestions very worthy of study. But I am an exporter of lumber; and I do not go with you on the suggestion of long-term credits to foreign countries. I do not think that is the right approach at the present time. Our experience has been that we in Canada are pricing our goods too high; we cannot meet foreign competition; and while we can sell our goods all right we cannot get any money out of what we sell, because, to meet competition in these markets, we have got to accept prices which are not sound as far as our own business is concerned. It seems to me that by extending long-term credits you are only confounding that situation; you are just going on continuing an artificial situation. I think the sooner we get down to a sound trading position, without government support, the better for us. We have got to face it some day, and we might as well recognize it and try to devise ways and means of meeting it. You have made some suggestions as to how it should

be brought about, but we certainly have to manufacture our goods here in Canada on a price basis that will enable us to meet competition from other countries.

Hon. Mr. EULER: Senator Burchill, I take it that you do not believe in lending money to these countries so that they can buy Canadian goods?

Hon. Mr. BURCHILL: I think that is just confusing the situation.

Mr. MACKAY-SMITH: Sir, I think we are entirely in agreement with you on the idea of getting down to a stable trading basis, but that suggestion is good as long as sterling, for instance, is not convertible.

Hon. Mr. BURCHILL: Of course, we cannot do anything about that, can we? That is a matter for the people of the United Kingdom and other sterling countries to determine. I doubt very much whether many sterling countries—Great Britain in particular—would look with favour upon taking loans from Canada for the purpose of buying our exports. I do not think they would want them to start with. I am convinced that the matter of convertibility is for them, and that we have to look after our own affairs, have we not?

Mr. MACKAY-SMITH: That is right.

Hon. Mr. BURCHILL: That seems to me to be our problem as exporters. You have made some worthy suggestions, but certainly our costs here in Canada are too high.

Hon. Mr. DAVIES: Mr. Chairman, could I ask Senator Burchill a question? Which country is Canada's greatest competitor in lumber?

Hon. Mr. BURCHILL: The Scandinavian countries.

Hon. Mr. EULER: What about Russia?

Hon. Mr. BURCHILL: No, Russia is not a competitor, for their prices are fair. They are always high. It is the Scandinavian countries which gives us most competition; countries like Finland and Sweden.

Hon. Mr. KINLEY: Mr. McKay-Smith, do you think the extension of credits embodies a dumping feature? For instance, is there not a dumping feature if I buy a product from the United States on a five-year plan?

Mr. MACKAY-SMITH: I do not think so. Perhaps Mr. Spiro can support me on that view.

Mr. SPIRO: Mr. Chairman, may I first reply to the question as to the influence of long-term credits? The convertibility of sterling is mainly retarded today by the blocked wartime sterling balances. The United Kingdom, as administrator of the sterling pool, would probably be quite willing and ready to introduce convertibility for current transactions, but there are still about \$10 to \$11 billion outstanding in blocked currency balances in sterling countries, and in other soft currency countries and in dollar countries, and if they were all made convertible at a stroke there would be a run on the Bank of England as was experienced in 1947, and the plan might again come to an end. On the other hand it would be a half-way measure to make only current transactions convertible. These blocked wartime balances could probably be, as the bankers say, funded, by long-term credits which the dollar countries, the United States and Canada, could possibly extend to those countries which hold the blocked wartime sterling balances. I have in mind such countries as India, Pakistan and Egypt, countries to which our trade has become almost nil. In these cases it is our submission that long-term credits would enable these countries to make use of these blocked sterling balances, and at the same time enable the United Kingdom, as the administrator of the sterling pool, to make currency convertible not only for current transactions.

As far as production costs are concerned I think we can all agree that in Canada they are very high, perhaps they may be ranked amongst the highest costs in the world today. Our wages and raw materials are almost as high

as they are in the United States. The cost of our raw materials is sometimes higher than they are in the United States, and on the other hand our wages and salaries are lower. There are other factors which enter into manufacturing costs. For instance, there is the matter of general overhead expense, which is naturally higher here in Canada than in the United States because the quantity of goods produced is smaller. For this reason our costs are higher, and in many cases they are substantially higher. We were given an illustration by Mr. Brown of Beatty Brothers in Fergus, Ontario. He stated that a large United States washing machine manufacturer produces 1,500 machines in a day, whereas the largest Canadian manufacturer of washing machines can only produce 150 machines in a day. It can therefore be seen that the overhead per machine in Canada is substantially higher than in the United States. There are also other cost factors. For instance, our interest rates in Canada are much higher than they are in the United States. Last but not least is the matter of exchange. Our exchange is a little bit higher, being 1 per cent and $1\frac{1}{4}$ per cent. It used to be 4 per cent, and it may go as high as that again. We have mentioned these points in our brief where we suggest that the attention of our labour leaders should be called to high wage costs. We are under the impression that our labour leaders and trade unions are entirely neglecting the matter of exports and do not realize what constant wage demands mean in the matter of exporting Canadian products. It certainly makes things difficult. I am not sure whether I have answered the questions adequately.

The CHAIRMAN: Thank you very much.

Hon. Mr. KINLEY: How big a mark does the Canadian manufacturer make on the American market? Does he get any business over there at all outside of Canadian Club whisky and the odd item? I do not believe we have many manufactured goods on the American market.

Mr. MACKAY-SMITH: No, it is essentially raw materials that the United States buys from us. There are a few manufactured products of original design that we sell in the United States. Incidentally, I do not believe that Canadians do enough of that sort of thing.

Hon. Mr. KINLEY: I know that we do sell some boats to the Americans. There are quite a number of Canadian-built boats in the United States. I think our biggest seller, though, is Canadian Club whisky.

Mr. MACKAY-SMITH: There is a little company in Montreal, the Irving Company, which exports ski suits to the United States. We do have a luxury trade in items of that kind.

Hon. Mr. EULER: Mr. MacKay-Smith, I read an article not long ago which was written by a Canadian trade commissioner in which he accused Canadian manufacturers of not making a real effort to sell their goods in the United States.

Mr. MACKAY-SMITH: I think we generally agree with that article. We are endeavouring ourselves to promote an interest amongst our exporters to the United States to come out with more original designs, something that is not made in the United States. I am thinking of such items as parkas. It is our rough estimate that there are approximately 15 million luxury buyers in the United States, and that no matter what the tariff is, whether it is 50 or 70 per cent, they will buy luxury goods anyway.

Hon. Mr. EULER: Does that apply to some of the Canadian shoe manufacturers who are selling their products in the United States? I know that some of our Canadian-made shoes sell in New York City. There is a shoe factory in London which exports to the United States, and Hartt Shoes; manufactured in New Brunswick, are exported to that country.

Mr. MACKAY-SMITH: And there are the Tyrol Shoes which are manufactured in Montreal. I have just come back from New York where I saw a good exhibition of Canadian shoes in Rockefeller Centre. I was informed that such stores as Lord and Taylor's have been making substantial orders from Canadian shoe manufacturers.

Hon. Mr. KINLEY: I understand that British shoes are duty-free coming into the United States market.

Mr. MACKAY-SMITH: I am not sure of that.

Hon. Mr. KINLEY: What about wool products? American tourists buy our Canadian wool products here. Why should Canada be an importer of wool? Should we not have the best wool in the world in Canada?

Mr. MACKAY-SMITH: You mean raw wools?

Hon. Mr. KINLEY: Yes.

Hon. Mr. ISNOR: Mr. Chairman, I am not a member of your committee, but when I learned that the Canadian Exporters' Association was going to present a brief I felt it was an opportunity to bring up something before your committee, if I may?

The CHAIRMAN: Certainly.

Hon. Mr. ISNOR: Not only before the committee, but before the association, in connection with this well prepared brief, particularly in regard to the tourist trade. I think some of the suggestions there could be followed through to our benefit here in Canada. But I was particularly interested to know, and I am going to ask Mr. MacKay-Smith, what his association is doing or has done in the past toward directing shipments of goods made to foreign countries through Canadian ports. Naturally, I am interested in the ports on the Atlantic coast, Halifax in particular. Perhaps Mr. Smith would be good enough to outline to the committee as to whether his association takes any steps in regard to direction of shipments, and particularly as to direction of traffic, through Canadian ports instead of American ports. We have competition from Portland and New York as far as the Atlantic ports of Halifax and Saint John are concerned, and I believe your association, Mr. Smith, could play a very important part toward directing shipments through Canadian ports.

Mr. MACKAY-SMITH: Yes sir, we are playing, I hope, an important part in that role right now. Firstly, we try to convince our members to make those shipments through Canadian ports. Sometimes there are difficulties, because the buyers instruct the seller what steamship line must be used. We have supported very strongly the National Harbours Board, and they formed a committee—I think it was the Canadian Ports Committee in support of that. We are fighting discriminatory practice—such as Ecuador. Their flagships do not come to the Maritime ports but only as far as New York, or possibly Boston. We have been in touch with the Department of Trade and Commerce, and they are vigorously protesting. Unfortunately, we do not have a diplomatic representative in Ecuador, and therefore it has to go through the United Kingdom representative. We hope to relieve that situation by making Ecuador bring their flagships into our ports. I think we are doing a lot of work in that connection.

Hon. Mr. ISNOR: I sincerely hope you will continue those efforts. I notice the Winnipeg Wheat Exchange is a member of your association. Years ago we were successful in having a large amount of grain shipped through the port of Halifax, for which we have added facilities there now, but instead there seems to be a tendency to ship to Vancouver via the Great Lakes, and I think it is just a matter of direction, particularly going overseas. While I know your association would perhaps hesitate to stress one port, you could

very well direct attention to the fact that the Maritime ports are seeking business. You mentioned the National Harbours Board. They cannot take it upon themselves to emphasize any particular port, and that is why they do not draw attention to the benefit of the Atlantic ports to the members of your firm but rather depend on the local commission, such as we have in the Halifax Port Commission, under the chairmanship of Mr. R. J. Rankin, who is at present the president of the Canadian Press Association, and I know he will continue to bring that to your attention. But I would impress upon you the need of shipping through Canadian ports instead of American ports.

Hon. Mr. TURGEON: Mr. Chairman, I would like to ask a question with relation to what Senator Isnor said. I happen to be from British Columbia. A few weeks ago there was a great furore in Vancouver, British Columbia, because we suffered from some arrangement made by the Department of Trade and Commerce by which there was a direct incentive to shippers of wheat and grain to ship to eastern ports rather than to western ports; and since that question has come up now, I would like to ask whether anybody can set that clear, and I admit I was not quite sure whether the complaint of Vancouver was right or wrong.

Mr. MACKAY-SMITH: I am sorry, I cannot answer that.

Mr. SPIRO: We all probably read the same thing in the paper as you did.

Hon. Mr. DAVIES: I should like to ask the witness if in his opinion the Canadian International Trade Fair which is to be held in Toronto on May 21, is of as much benefit to our exporters as it is in increasing imports to Canada. I have been to the fair every year, and I have seen exhibits from other countries, and very fine exhibits from all over, and I am wondering whether that fair does not perhaps increase imports into Canada more than exports out of Canada. What is your opinion?

Mr. MACKAY-SMITH: May I ask Mr. Spiro? He has been closely in touch with the fair.

Mr. SPIRO: I happened to be a member of the visitors and exhibitor committee and may be able to give information to the honourable senator. A few years ago the trade fair went through a crisis—a sort of delicate situation, when we noticed that percentage-wise we had more foreign exporters than Canadian exporters, and the Right Honourable C. D. Howe was not quite sure whether this event should be continued at all. We, as representatives of industry in Canada, and of the Canadian Exporters' Association, took a rather strong stand in favour of the continuation and pledged our support to enhance the interests of Canadian exporters at this event. You must not forget, Mr. Chairman, that this international trade fair is comparatively new to Canada. Our trade fair is the only international trade fair on the North American continent. To develop an event like that and propagate it and make people enthusiastic and believe in it takes years and cannot be done in three or four years. They have been successful in convincing the Right Honourable C. D. Howe of this, and are very grateful to him that he has continued this event, and today the majority of exporters are again Canadian firms. I think this year between 60 and 70 per cent is the figure, and only the remainder are foreign firms. So, provided Canadian industries are not seriously hurt by such imports, I think we should all be very much in favour of having as many foreign exhibitors here as possible.

Hon. Mr. EULER: To what extent do you avail yourselves of the opportunity of exhibiting Canadian products in the European trade fairs? That ought to help you more than anything else.

Mr. SPIRO: That is quite true, Senator. The Canadian government through its government Exhibition Commission, is participating in an institutional way in many foreign trade fairs, such as at Utrecht, Holland this year.

Hon. Mr. EULER: Was there not one at Leipzig?

Hon. Mr. KINLEY: Or at Hamburg?

Mr. SPIRO: There is one at Hanover; and also the British Industries Fair, and in Mexico City; I believe we are also having a Canadian exhibition in Sao Paulo, Brazil, and at Bogota, Colombo. In some cases these exhibitions are purely of an institutional character, just an exhibition of products which Canada can export, without naming any firms. In other cases there is some co-operative effort with the government exhibition, where we can exhibit our own products with our name on them, and perhaps even distribute some advertising literature. This is, for instance, true of the Sao Paulo Exhibition, where only recently the Canadian government Exhibition Commission has invited Canadian firms to participate on such a co-operative basis. True, it will cost us something, but not as much as if we went there alone. Apart from this, some Canadian firms are also exhibiting on their own. I think my own firm this year exhibited in perhaps ten or twelve different fairs overseas, and many other Canadian firms do the same thing.

Hon. Mr. EULER: Has it promoted business?

Mr. SPIRO: Yes, we believe it has. If I may speak personally, we are great believers in the value of trade fairs overseas, because in those countries, particularly in Europe, people are very much more aware of the value of such fairs than we are here.

Hon. Mr. EULER: You reach your customers more directly in that sort of exhibition than you do in the Canadian Trade Fair, I should think.

Mr. SPIRO: On the other hand, Mr. Senator, through our fair here we get many people into our own grounds, and it is much easier to demonstrate our products and to negotiate with them if we can, than in their own country. We believe that we have derived great benefit also from the Canadian Trade Fair, although we have to compete with the foreign exhibitors who exhibit here.

Hon. Mr. EULER: My idea is that if you exhibit in the European centres, you are in direct contact with probable buyers; whereas, in the Canadian trade fair—and I am not depreciating it—the people who come there are not buyers of your products but are trying to sell their own.

Mr. SPIRO: Excuse me, but I cannot agree with you.

Hon. Mr. EULER: I would be glad to be corrected.

Mr. SPIRO: We had last year something like 30,000 foreign visitors actually registered as buyers at our Canadian International Trade Fair. Although this number, in our opinion, was quite satisfactory, we still thought we should try and further increase it. All the advertising effort of the Canadian International Trade Fair this year, in publications, through speeches and travel of some officials abroad, are mainly directed towards increasing the number of visiting buyers. We are looking forward with great interest to this figure of 30,000 registered buyers last year being increased this year.

Hon. Mr. DAVIES: Mr. Chairman, that is all very well, and I am in favour of two-way trade. But as I understand the situation, our textile factories, for instance, are having a rough time. Should we encourage Canadians to buy textiles from, we will say, Great Britain and other countries where the wage scale and standard of living is lower than in Canada by exhibiting their products at such things as trade fairs? No doubt we have exhibits of these various textiles in Great Britain and at our own fairs, but my understanding is that Canadian textile manufacturers find it difficult to compete with the textile products of Great Britain. Is that so?

Mr. SPIRO: Mr. Chairman, if you will permit me, we tried to cover this problem in our brief. On page 2 we say:

It is recognized by the Association that an important part of the foundation for Canadian export business is a sound domestic manufacturing industry. This industry is entitled to prompt and effective enforcement of Canadian Laws on Customs and Dumping Duties.

We believe that the legal provisions which have only recently been further developed here would be sufficient to protect such Canadian industries which are exposed to dumping or any unfair foreign competition; otherwise some foreign competition may even be of a healthy influence to some of the lesser efficient domestic industries in Canada. But we believe that the legal provisions made in this country are sufficient to protect those who are just working as efficiently as possible, but cannot bring their costs down.

Hon. Mr. DAVIES: It is not very helpful to the textile workers who are unemployed. I read in the paper recently that within the past month we have had seventeen textile factories close down in Ontario. Senator Burchill pointed out that in our various provinces we have a high standard of living, and our wages do not compare with those of Europe and the eastern countries. It appears to me to be quite a serious problem. If we are going to maintain a high scale of wages and standard of living, we are not going to be able to compete in the foreign markets, for the people who come here and exhibit at our trade fair can undersell us. Is that not the situation? Why should we encourage them to come over here and advertise the fact that they can undersell us?

Mr. McKAY-SMITH: There is one other advantage that has come out of the trade fairs in the circumstances to which you are referring. Canadian companies—and I cannot say that any textile companies have done this—have made arrangements with these exporters to produce the exporters' goods in Canada. It may be an arrangement covering the whole or partial manufacture, but there have been a great many very profitable unions made in that way. I do not know the exact figure—perhaps Mr. Spiro may know them.

Mr. SPIRO: I am not quite sure about the textile industry, but there are a number of industries which have been established by reason of the fact that the exhibitors have first visited our trade fair and then either made a licensing arrangement here or opened up a branch in Canada. I am not a textile man myself, but we must not forget that some industries have perhaps been a little bit lacking in progress, and may therefore benefit by the trade fairs through seeing what other countries can produce by utilizing new materials such as orlin synthetic fibres, and make up-to-date designs.

I believe, Mr. Chairman, if the honourable senators had an opportunity to talk to such people as buyers of big chain and departmental stores in Canada, they would perhaps find an explanation for the difficulties of the Canadian textile industry today.

Hon. Mr. EULER: May I ask a further question related to the textile industry? Certainly the textile people are on a spot; and we have heard very serious complaints about the imports coming in from the United States, with the result that during the past session we enacted legislation which was directed at tightening up the dumping laws. Has that been of any value?

Mr. McKAY-SMITH: To a limited degree, I believe it has.

Hon. Mr. EULER: You know what I am referring to.

Mr. MacKAY-SMITH: Yes. That is the case for a limited time. It is out of season selling.

Hon. Mr. EULER: You spread it over a six months' period—the prices?

Mr. MacKAY-SMITH: I believe that measure brought in by the federal government has included that.

Hon. Mr. EULER: I have heard it said that it did not do very much good although I sponsored the bill myself in the Senate.

Mr. MACKAY-SMITH: It is very difficult to put your finger on this question of dumping, unless you have actual proof.

Mr. MACDOUGALL: When this new law was enacted it was felt that it would probably take two years to feel the effects of it.

Hon. Mr. TURGEON: Are the textile people members of this organization?

Hon. Mr. EULER: Our textile people do not export very much.

Mr. MACKAY-SMITH: No, but they tried.

Hon. Mr. BEAUBIEN: Mr. Chairman, does it not all come down to this, that if you are going to export manufactured products or any other commodities, the country that you export to must pay you by their exports. Does it not all come down to that?

The CHAIRMAN: Correct.

Hon. Mr. BEAUBIEN: We are now selling a lot of wheat to Japan. I think we have developed a market in Japan for wheat, which is very, very important. A large delegation from the Canadian Wheat Board and the Canadian wheat pools took a trip to Japan recently and only this morning I saw the president of the Manitoba Wheat Pool, Mr. W. J. Parker, and he was telling me of the possibilities of a market for wheat in Japan. He said that the possibilities are tremendous. In fact, he told me this morning that there are greater milling facilities in Japan than in Canada. Of course, those facilities are not all operating, but the facilities are there. He said also that Japan is importing a lot of barley. The Japanese have managed to perfect a process which will separate the hull from the barley grain, and the barley is mixed with rice to make a very nourishing food. Now, if we are going to continue to enjoy that market for wheat, which is very, very important to the whole western world, we certainly will have to import goods from Japan in order to be paid, and if Japan can produce textiles cheaper than our own over-industrialized textile plants, why should we not import those textiles in payment for our wheat, seeing that production and exportation of wheat is very essential to this country.

The CHAIRMAN: I think it is fundamental that a country is only able to pay for what it imports by its exports. Money does the bookkeeping, but that is all. I would like to hear a word along the lines of what Senator Burchill brought up, having to do with a question that is being studied in the United States, whether profits made in foreign countries by the exportation of lumber or potatoes are to be taxed less than profits made internally. In your opinion, Senator Burchill, would that help the lumber business? Or would it help the potato business, Senator Pirie?

Hon. Mr. BURCHILL: It would be difficult to segregate the profits. It would be a real accounting job, and I do not know just how it could be done.

Hon. Mr. EULER: That would be class legislation too.

Mr. MACKAY-SMITH: We are happy to know that there will be some discussion on this point. We believe there should be an incentive given to exporters, the same as is given to exporters of other countries, and we inserted that suggestion in our brief as a provocative statement to bring about a discussion.

The CHAIRMAN: I do not see why it could not be done on foreign or export business. What do you think along that line, Senator Pirie?

Hon. Mr. PIRIE: Well, I do not know, but I am sure, Mr. Chairman, as far as my experience in the export trade and the shipping of commodities is

concerned, which we specialize in, I have to do the needle work myself. I do not think it can be done through the Canadian Exporters Association. I have to visit foreign countries and do the missionary work myself.

The CHAIRMAN: But I am referring to the question of lowering taxes on profits made in export trade.

Hon. Mr. PIRIE: Well, it is very competitive business and we run into very keen competition from the United States. For instance, in Cuba the United States has a preferential tariff over us. We have to try and meet that competition by cargo shipments instead of car shipments, and it is very difficult to do it. But I will say that if you establish confidence in the people who are using your goods in the export market, I think that that is half the battle. I do not know too much about it, though.

The CHAIRMAN: I am sure that you will get much keener competition when the United States lowers their taxes on profits that are made through trading with foreign countries.

Hon. Mr. PIRIE: The recommendations of the association are in their brief and I think the Canadian Exporters' Association can do a wonderful job in matters like that. I do not think there is any objection to that at all.

The CHAIRMAN: Mr. MacKay-Smith, have you anything to say on that?

Mr. MACKAY-SMITH: I would like to confirm Senator Pirie's beliefs about having to do it yourself. We are desperately trying to get presidents and directors of companies to become conscious of that. Too many companies today try to do export business by sitting at home and writing a letter. We try to convince them that they should travel abroad. We say that you have to go abroad and sell it yourself, that we cannot do it for you. I think that Mr. MacDougall has just returned from a trip around the world selling his products. That is really the only way it can be done. You have to show aggressiveness in selling your own products.

Hon. Mr. EULER: Were you serious when you said that freight rates should be reduced on export business? Do you think that is possible in face of the constant increases in freight rates?

Mr. MACKAY-SMITH: I would say that many contributions have to be made to make export business successful, and one is freight rates. The railways are not now getting as much traffic as they did when large exports were being handled by them. There is a meeting point for freight rates on exports that would give us a more competitive position abroad.

The CHAIRMAN: A greater volume would result?

Mr. MACKAY-SMITH: Yes, Mr. Chairman, a greater volume.

Hon. Mr. EULER: Of course we do have reduced freight rates to and from the Maritimes.

Hon. Mr. TURGEON: And the same treatment is given to wheat producers and shippers, and a good many other shippers are becoming fearful that reduced freight rates on export commodities may have the effect of increasing freight rates on commodities produced for domestic consumption. Mind you, I am not arguing against it but I am just offering you that thought. Is that thinking not prevalent in British Columbia?

Mr. MACKAY-SMITH: We believe today that the Canadian economy cannot support existing industries in Canada and, therefore, we must have substantial exports.

The CHAIRMAN: What percentage of over-capacity would you say that it is?

Mr. MACKAY-SMITH: It is as much as twenty-five per cent. As a matter of fact, I think you will find that we are more dependent on export trade than

any other country in the world and if we do not export the domestic buyer is not going to be there—he is going to be out of work. That is what we are trying to point out to the labour unions in various discussions.

Hon. Mr. TURGEON: Suppose that the railway companies were to answer you by saying if certain freight rates are reduced, they will have to make up what they would call a loss by increasing freight rates on other commodities. How would you meet that?

Mr. MACKAY-SMITH: It happens in other countries—for instance, you will find in agreements made by steamship companies from Europe and the United Kingdom that the rates for like commodities from East to West are lower than those of similar commodities which are purchased from Canada and shipped from West to East. This, of course, helps make the European commodity much more competitive. It is one of the incentives and, I think you will find, it is fairly common practice.

Mr. FERRIE: The remark was made a few minutes ago, concerning the ports of Halifax and Saint John, that if the railways could offer some inducement on freight rates the volume of traffic going through those ports would be increased, by diverting it from the port of New York. In that way the railways would get a great volume of traffic. It is not necessarily the case that rates are lower from New York than from Halifax and Saint John, but there is a lot of traffic going through New York which should go through our Canadian harbours and ports.

Hon. Mr. PIRIE: But you can get a ship every day in the week out of New York, and you would have to charter a ship if you wanted to get it out of Halifax or Saint John.

Mr. FERRIE: That is true. I think an increased volume of exports would remedy that situation.

Hon. Mr. ISNOR: I wonder if I may ask another question. I was interested in what Mr. MacKay-Smith said as to there being no direct sailings to Canada from the potential countries of supply, and his endeavours to correct the situation. Did I understand you, Mr. MacKay-Smith, during your remarks to indicate that you had made representations to the Canadian Government in reference to C.N.S. or any other lines?

Mr. MACKAY-SMITH: Yes, we have. The statement was made in the press by the Minister of Transport or a representative of the department that C.N.S. might discontinue that service because it is unprofitable, and we have made representations to the Department of Trade and Commerce that the Exporters' Association take a very dark view of that, and we want the service maintained; if not by C.N.S., by some other line.

Hon. Mr. ISNOR: That is what I wanted to bring out in the open. I am inclined to think that the lack of trade is partly our own fault. We were shipping goods, as I mentioned before, to American ports in these C.N. steamships, which were not only calling at Montreal and Halifax but calling at Boston and picking up a large amount of freight which rightly, I believe, belonged to ports such as Halifax and Saint John. I would like to bring that to your attention so that stress may be laid on it in the future. I am of course strongly of the opinion that the C.N. steamships which are operating at present are not of the right type, that there should be another type of ship to look after our Canadian business. I am in accord with your thought in this matter.

The CHAIRMAN: Senator Campbell, you are interested in shipping. Is there anything you would like to comment on?

Hon. Mr. CAMPBELL: I might say that the whole shipping situation looks about as pessimistic as it has been in Canada for thirty-five or forty years. By June of this year we will have fewer ships operating under the Canadian flag than there have been for thirty-five years, and the likelihood is that there will be continuing deterioration in this matter. Of course you cannot make any firm long-term contracts with foreign ships, and you cannot depend upon foreign ships continuing their service when more profitable business originates elsewhere. It seems to me that until a very definite shipping policy is laid down in Canada there is not a great deal you can do to help out in the movement of goods through Canadian ports. A number of companies have attempted to meet this situation, by encouraging foreign ships to come in on a liner basis, calling at Canadian ports, to render a service which in my opinion should be rendered by Canadian shipping, if you look at it over a period of many years; and I feel that since we are so dependent upon exports, it is extremely important that we have some shipping policy so that we know whether there is going to be a Canadian mercantile marine or there is not. Everyone realizes that the differential in wages is so great between foreign ships and Canadian flag ships that at today's rates it is simply impossible for Canadian flag ships to continue to operate and meet their fair operating costs. I do not know whether that is any help, Mr. Chairman.

The CHAIRMAN: Very, very good, Senator.

Hon. Mr. CAMPBELL: I would like to ask Mr. MacKay-Smith one thing about the tax situation. It rather appeals to me that there may be some benefit to be gained from a drawback on taxes paid on goods manufactured in Canada and shipped abroad, and I think, if you look into the situation, you will find that Germany has taken quite a substantial step in that direction. I was wondering whether the association had made any studies to ascertain what cost element in the manufacture of goods is represented by taxes.

Mr. MACKAY-SMITH: We have gone about it in a little different way. We are making a study right now of all the incentives, unofficial or official, given by other countries to their exporters. We want to eventually present that to various departments of our government to work out some sort of incentive. I think you are perfectly right about Germany. We are going into what can be done here. We have used it, as I said before, as rather a provocative point to get people to talk about it, so that people will think; because the moment you mention taxes to the government they say, "Oh, no, we would not do anything like that".

Hon. Mr. CAMPBELL: Is there not a provision now for a drawback on duties paid with respect to any element which goes into the manufacture of goods for export?

Mr. BROWN: You are quite right. If we bring in merchandise from the United States and incorporate it in a product we can get a drawback on duty.

Hon. Mr. CAMPBELL: Therefore you have got a precedent in that respect, and you have got a formula for handling it, and it seems to me that the same procedure might be applied where the manufacturer would apply for a drawback on the tax element in his cost, if it could be ascertained. If there are any hidden or indirect taxes in our whole economy in Canada, you would probably be confined to certain direct taxes; that is, a drawback with respect to certain direct taxes. It seems to me that that might be quite an incentive to manufacturers to seek foreign markets, and it would also enable them to meet competition in prices in many respects. There is one further question which I should like to ask. I was wondering if the association ever discussed or considered the benefits of establishing a free port in Canada?

Mr. MACKAY-SMITH: I think our recommendation in our brief for tax-free purchases for tourists is tantamount to that. When we first made this suggestion the press announced "Canadian Exporters Association recommend making Canada a free port".

Some Hon. SENATORS: Oh, oh.

Mr. MACKAY-SMITH: We are at the present time writing a brief to present to interested federal officials on this subject, but we have not talked about a specific port as being a free port. I suppose that this could carry on beyond just tourist trade. What we have suggested in our brief is a free port in that sense, because of the legislation Senator Campbell is speaking about. I mean, you can bring in a machine from Germany and sell it to an American and get a drawback.

Hon. Mr. CAMPBELL: I think there is a free port in Rotterdam. There are many free ports in the world.

Mr. MACKAY-SMITH: We have not taken it up on that basis, sir.

The CHAIRMAN: Do free ports operate in the United States now?

Mr. MACKAY-SMITH: Yes, sir.

The CHAIRMAN: Well, if the United States can offer them perhaps we can do likewise.

Mr. SPIRO: The free port in New York City has been maintained for a number of years mainly for the purpose of carrying out certain manufacturing operations within the confines of the particular free zone. For instance, American watch manufacturers are importing the movements from Switzerland and the cases for the watches from the United States into the free zone, where they are assembled. Then when they bring the completed watches into the United States they only have to pay customs duty on those watches. If they are left in the free zone and then re-exported to, say, Mexico, they do not have to go through the customs procedure at all. I think there is a free port in New Orleans and there is one in the Republic of Panama. A free zone was opened there about two years ago and many well-known international companies, such as Gillette Razor Blade Company, have set up small manufacturing operations in that zone. They import parts from the United States and other parts from, say, England, and export the finished product to various world markets.

Hon. Mr. ISNOR: I think that our bonding system takes care of many of the problems that are now taken care of by these expensive operations in free zones or free ports.

Mr. SPIRO: I believe you can open up a bonded warehouse where you can also carry on certain manufacturing operations. I do not believe anybody would have any difficulty in doing this, and it would obviate the necessity for opening up a whole free port.

The CHAIRMAN: I should like to thank the directors of the Canadian Exporters Association for having come here to present their fine brief and to answer our questions. The Canadian Exporters Association has carried on invaluable work in their field, and their efforts have done much to improve Canadian economy. We have often heard it said that England must export in order to live. I believe that about 17 per cent of English goods are exported. In the United States I think 6 or 7 per cent of the goods are exported, but here in Canada over 25 per cent of our goods are exported. Therefore it can be easily seen what an effect it would have on our economy if even a small portion of our export trade was lost. Thank you again gentlemen for having appeared before our committee this morning.

Whereupon the committee adjourned.

